



WEEKLY REPORT

ARIZONA STATE RETIREMENT SYSTEM

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For the week ending Friday, April 4, 2003

Weekly Report is published by the Arizona State Retirement System (ASRS) and provides a summary of legislation that pertains to the ASRS, as well as up-to-date ASRS news. We hope you find it useful. Included is a Quick Reference bill summary. If there are issues you'd like addressed, please let us know.

***** Please distribute or make this report available to your employees. *****

ASRS News:

- The next ASRS Board meeting is scheduled for Friday, April 18, 8:30 a.m., in the ASRS Phoenix office, 3300 N. Central Ave. ASRS Board Meetings are always open to the public and your attendance is encouraged. Board meetings, agendas and minutes can be found on the ASRS website.

Next Week in the State Legislature:

Rules hearings are expected to be scheduled soon on the following bills:

- HB 2024 Service purchase
- HB 2455 Termination option
- HB 2349 Rural Health Insurance Subsidy
- SB 1037 Surviving spouses; health insurance
- SB 1224 S/E Defined Contribution Plan Amendments

ASRS Legislation NEWS

This is the last week to hear bills in committee, and activity at the Capitol has been in high-gear. There was substantial movement on ASRS Legislation (eight hearings in two days) with some interesting twists and turns. Here are some highlights:

Rural Health Insurance Subsidy

The Senate version of the Rural Health Insurance Subsidy (SB 1036) was held in the House Government and Retirement Committee, which effectively killed that version of the bill. The Committee Chair has committed to work with key legislators to pass the House version (HB 2349) of the subsidy extension. While both bills have undergone major changes on numerous occasions in the past two weeks, HB 2349 contains the following provisions in its current form:

- Extends the Rural Health Insurance subsidy for two-years.
- Establishes minimum out-of-pocket costs for coverage retirees must pay before being eligible for the Rural subsidy.
- The Rural subsidy can be applied to medical insurance premiums only (not dental or vision coverage).
- To qualify for the full family subsidy, a retiree must be enrolled in family medical coverage.

All provisions requiring employers to retain retirees in their health insurance plans have been removed.

Minimum Out-of-Pocket Contributions in HB 2349

	Without Medicare	With Medicare
Retiree Only	<i>must pay \$125 out of pocket per month</i>	<i>must pay \$100 out of pocket per month</i>
Retiree & Dependents	<i>must pay \$425 out of pocket per month</i>	<i>must pay \$300 out of pocket per month</i>
Retiree & Dependents (one with Medicare, the other without)	<i>must pay \$400 out of pocket per month</i>	<i>must pay \$400 out of pocket per month</i>

Any retiree currently receiving the Rural Health Insurance Subsidy who pays more for medical insurance than the minimum out-of-pocket will not see a change in the subsidy. The changes in the bill will result in a significantly lower fiscal impact, while continuing to provide relief to those rural retirees paying extremely high rates for medical coverage.

HB 2349 has passed out of the Senate Committees and is awaiting a hearing in Rules. From there, the bill will go to Caucus and then to the full Senate.

Terrorism Investment Bills

The House Financial Institutions and Insurance Committee held a hearing on SB 1296 this week. This is the Senate version of the bill relating to investments in terrorist- sponsoring nations. The agenda listed a possible “strike everything” amendment, which was very similar to the introduced version of the bill, but only pertained to the State Treasurer’s Office, and exempted the retirement funds. The Committee did not hear the “striker” but rather took testimony on the Senate Engrossed version of the bill. The Senate Engrossed version required all fund managers to be in compliance with a federal list of prohibited investments. Since all ASRS fund managers are already in compliance, we had no objection to the bill, except for a small technical amendment that was needed.

After some very interesting testimony and questions from Committee members, the bill failed. However, just to keep the process as interesting as possible, the bill was never First Read in the House, so it was never actually assigned to the Financial Institutions and Insurance Committee. That means that from a technical standpoint, the bill was never heard in Committee. So, while the bill appears to be dead, it could still rise from the ashes. As they say, no bill is dead until Sine Die. We’ll keep you posted.

Other legislation affecting the ASRS is listed in the attached Quick Reference.

Quick Reference
ASRS Related Legislation
(Updated through Friday, April 4, 2003)

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
HB 2023 – ASRS; unpaid contributions by Huppenthal As Amended in Sen. COW: <ul style="list-style-type: none"> Provides a member with 90 days to make payments after being notified that the employer has paid. If the member does not pay within 90 days, the member is responsible for accrued interest from that date. Provides an employer with 90 days to make payments after being notified of the amount due. If the employer does not pay within 90 days, the employer is responsible for any accrued interest until the amount is paid in full. Provides that the person initiating the request is responsible for providing verification of past employment and qualification for participation in the ASRS. States that, beginning July 1, 2004, the employer is only responsible for making payments for service worked within 15 years of the date of the request. Allows a member to purchase service that was worked prior to the 15-year limit as “other public service.” Provides a member until July 1, 2004 to purchase service worked prior to the 15-year limit under current procedures. States that an ASRS determination of eligibility is appealable to the ASRS Board. 	Passed House 56-0-2. Assigned: Sen. FIN. Status: Passed Sen. FIN DPA 8-0-1. Passed Sen. RULES PFCA. Passed Sen. COW DPA. Awaiting Sen. Third Read.	As Amended in Sen. COW: None Expected.	As Amended in Sen. COW: Actuarial letter received stating no cost.
HB 2024 – ASRS; service purchase; calculation by Huppenthal As Amended in Sen. FIN: Contains an emergency clause. Defines “current annual compensation” used in calculating the cost of purchasing service credit as the greater of: <ol style="list-style-type: none"> The sum of the 12 months of compensation prior to the request. The sum of the 36 months of compensation prior to the request, divided by three. If the member has retired from an ASRS employer, the average monthly compensation used to calculate the member’s last pension, times 12. The annualized compensation of the full pay period prior to the request. The annualized compensation of the partial year prior to the request, if the member has less than 12 months of service. 	Passed House 57-0-1. Assigned: Sen. FIN. Status: <u>Passed Sen. FIN DPA 9-0-0.</u> <u>Awaiting Sen. RULES.</u>	As Amended: None Expected.	As Amended: Actuarial letter received stating no cost.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
HB 2067 – ASRS; technical correction by Huppenthal As Introduced: Makes a technical change to 38-742 “reinstatement.”	Assigned: Hse. RULES. Status: Awaiting Hse. RULES. DEAD (?)	As Introduced: None Expected.	As Introduced: None.
HB 2349 (see SB 1036) – public retirees; rural areas; insurance by Konopnicki, Flake, Wagner, Arzberger, and Brown As Amended in Sen. FIN: <ul style="list-style-type: none"> Extends the rural health insurance subsidy for two-years. Establishes minimum out-of-pocket premium costs for health coverage in order to be eligible for the rural subsidy. Requires that the rural subsidy can only be applied to medical insurance premiums. Provides that the family-rate rural subsidy is only available if the retiree has family medical coverage. 	Passed House 40-17-3. Assigned: Sen. FIN, Sen. GOV. Status: <u>Passed Sen. FIN DPA 5-2-2. Passed Sen. GOV DP 8-1-0.</u>	As Amended: \$185,000 one-time implementation cost.	As Amended: Unfunded liability of \$19.8 million, an increase in the contribution rate for all employers and employees of 0.014% each, which is a combined cost of \$2.0 million more in contributions annually for 18 years (GF cost of \$225,000 per year).
HB 2397 (see SB 1296) – public monies; investment protection by Yarbrough, Martin, Huppenthal, and 4 As Amended in Hse. WM (Strike Everything): <ul style="list-style-type: none"> Requires all asset managers that invest in equities on behalf of this state to submit an annual report to the entity on whose behalf they are investing. Requires affected state entities to provide an annual report to the governor, president of the senate, speaker of the house of representatives and the chairpersons of the house ways and means committee and the senate finance committee. Defines “federal designated terrorist sponsoring country or government” to mean those countries or governments that are designated as terrorist sponsoring by the U.S. Department of State, except Cuba. Only one company has been identified that could supply a portion of the required information to the asset managers for a fee. 	Assigned: Hse. WM. Status: Passed Hse. WM DPA/SE 7-4-0-1. Awaiting Hse. RULES. DEAD (?)	As Amended: Requested.	As Amended: A potential increase in the contribution rate for all employers and employees of 0.64% each. Based on \$4 million increase in investment management fees, a 0.50% reduction (est. \$80 mil.) in investment return, and \$300,000 annually to purchase oversight services and prepare the reports. Potential litigation costs are not included.
HB 2398 – ASRS; long-term disability increase by Carruthers, O’Halleran, Gullett As Introduced: Provides an increase to a member’s LTD benefit equal to a benefit increase provided to a retired member of ASRS.	Assigned: Hse. GR, Hse. APPROP. Status: Awaiting Hse. GR. DEAD (?)	As Introduced: Not requested.	As Introduced: Unfunded liability of \$56.0 million, an increase in the LTD contribution rate for all employers and employees of 0.09% each, which is a combined cost of \$7.4 million more in contributions annually (GF cost of \$1.8 million per year).

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
HB 2401 – deferred retirement option plan by Wagner, Quelland, Gray, and 6 As Introduced: Provides a deferred retirement option plan option to members of the ASRS, PSPRS, and CORP.	Assigned: Hse. GR, Hse. APPROP. Status: Awaiting Hse. GR. DEAD (?)	As Introduced: Not requested.	As Introduced: Unfunded liability of \$634.8 million, an increase in the contribution rate for all employers and employees of 0.45% each, which is a combined cost of \$31.5 million more in contributions annually for 17 years (GF cost of \$7.5 million per year).
HB 2455 – ASRS; termination option by Huppenthal As Passed the House : Makes technical changes to the Modified DROP Program.	Passed Hse. 57-0-3. Assigned: Sen. FIN. Status: <u>Passed Sen. FIN DP 9-0-0. Awaiting Sen. RULES.</u>	As Passed the House : None Expected.	As Passed the House : None.
HCR 2002 – impeachment; public retirement systems; forfeiture by Huppenthal As Introduced: Constitutional amendment to allow the senate to require an impeached official to forfeit their public retirement benefits from the office for which they were impeached.	Assigned: Hse. GR, Hse. JUD. Status: Awaiting Hse. GR. DEAD (?)	As Introduced: None Expected.	As Introduced: None.
HCR 2029 – public monies; investment protection by Nichols, Verschoor As Introduced: Urges all asset managers and financial firms that invest or manage monies on behalf of the state to submit semiannual reports concerning companies engaged in business practices within a country designated by the United States Department of State as one that supports terrorist activities.	Assigned: Hse. GR, Hse. APPROP. Status: Passed Hse. GR DP 10-0-0-2. Awaiting Hse. APPROP. <u>DEAD (?)</u>	As Introduced: Requested.	As Introduced: Not Requested. (If implemented, cost may be the same as SB 1296 and HB 2397.)
SB 1036 (see HB 2349) – public retiree health insurance subsidy by Arzberger and 23 As Amended in Hse. Health: <ul style="list-style-type: none"> Establishes minimum out-of-pocket premium costs for health coverage in order to be eligible for the rural subsidy. Provides that the family-rate rural subsidy is only available if the retiree has family medical coverage. 	Passed Senate 25-5. Assigned: Hse. HEALTH, Hse. GR, Hse. APPROP. Status: Passed Hse. HEALTH DPA 11-0-0-1. <u>HELD Hse. GR 04/01/03. DEAD (?)</u>	As Amended in Hse. Health: \$185,000 one-time implementation cost.	As Amended in Hse. Health: Unfunded liability of \$19.8 million, an increase in the contribution rate for all employers and employees of 0.028% each, which is a combined cost of \$2.0 million more in contributions annually for 18 years (GF cost of \$225,000 per year).
SB 1037 – ASRS; surviving spouses; health insurance by Arzberger and 17 As Amended in Hse. GR: Provides a retiring member who selects a joint and survivor or period certain annuity the ability to select an optional health insurance subsidy that continues to the contingent annuitant after the member's death.	Passed Senate 29-0-1. Assigned: Hse. GR, Hse. WM. Status: Passed Hse. GR DPA 12-0-0. <u>Passed Hse. WM DP 12-0-0. Awaiting Hse. RULES.</u>	As Amended in Hse. GR: \$537,000 one-time implementation cost.	As Amended in Hse. GR: Actuarial letter received stating this bill is cost neutral.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
SB 1160 – ASRS; veterans; service credits by Arzberger As Introduced: <ul style="list-style-type: none"> Requires the ASRS to recalculate the cost of military service purchased by members (active, retired, or deceased) prior to July 20, 1996, and refund any amounts, plus interest. Requires the ASRS to publish a notice of possible refund in 4 quarterly newsletters and 2 annual statements. Appropriates \$50,000 to the ASRS for making the recalculations. 	Assigned: Sen. FIN, Sen. APPROP. Status: Awaiting Sen. FIN. DEAD (?)	As Introduced: Requested.	As Introduced: Unfunded liability of \$628,050, and increase in the contribution rate for all employers and employee of .00045%. However, because the contribution rate is rounded, there will be no actual contribution rate change and therefore no cost.
SB 1221 – ASRS; study committee; health costs by Arzberger, Aguirre, Brotherton As Amended in Sen. FIN: Creates a study committee on managing retiree health-care costs.	Assigned: Sen. FIN. Status: Passed Sen. FIN DPA 6-0-3. Passed Sen. RULES PFC. Awaiting Sen. COW. DEAD (?)	As Amended: None Expected.	As Amended: None.
SB 1224 – S/E: supplemental defined contribution plan; procedures by Martin, Reagan As Amended in Hse. GR (Strike Everything): Makes changes to the supplemental defined contribution plan in order to conform to IRS requirements. <ul style="list-style-type: none"> Requires an employee to make an election to participate in the Plan within two years after the employee first becomes eligible to participate in the Plan. States that an election to participate in the Plan is irrevocable and continues for the remainder of employment. Allows the employer to annually increase or decrease the employee contributions in increments of one per cent up to the maximum allowed by law OR requires the employee to make one-time irrevocable elections of the employee's contribution amount. Clarifies the procedures for employer matching contributions. 	Passed Senate 29-0-1. Assigned: Hse. GR, Hse. APPROP. Status: Passed Hse. GR DPA/SE 11-0-0-1. Passed Hse. APPROP DPA/SE 16-0-0-1. Awaiting Hse. RULES.	As Amended in Hse. GR: None Expected.	As Amended in Hse. GR: None.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
SB 1225 – ASRS; investment management; requirement by Martin As Passed the Senate: Amends ARS 38-718 to correct for the change in name of the organization responsible for awarding the chartered financial analyst designation from “institute of chartered financial analysts” to the “Association for Investment Management and Research.”	Passed Senate 30-0. Assigned: Hse. FII, Hse. GR. Status: Passed Hse. FII DP 11-0-0-1. Passed Hse. GR DP 11-0-0-1. <u>Passed Hse. RULES C&P 12-0-0. Passed Hse. Caucus. On Hse. Consent Calendar 04/02/03 1:00pm.</u>	As Passed the Senate: None Expected.	As Passed the Senate: None.
SB 1226 – ASRS; legal counsel by Martin As Introduced: Exempts the ASRS from obtaining legal counsel only from the Attorney General.	Assigned: Sen. JUD, Sen. FIN. Status: Passed Sen. FIN DP 8-0-1. FAILED Sen. JUD 3-4-2. Scheduled, not heard Sen. JUD 02/26/03. DEAD (?)	As Introduced: None Expected.	As Introduced: None.
SB 1296 (see HB 2397) – public monies; investment protection by Martin, Stump, Yarbrough As Passed the Senate: <ul style="list-style-type: none"> Requires asset managers and financial firms that invest money on behalf of the state to submit annual reports if they have identified that they invest state money in companies that are listed on the US Treasury Department's Office of Foreign Assets Control specially designated nationals' and blocked persons list. The report must include a list of companies that the fund manager holds that are on the list, as well as alternative investment strategies and their impact on the funds and how the portfolio could be altered to exclude those companies. Prohibits any fund manager that fails to provide a report from investing money on behalf of the state. Establishes a task force to study ways for public funds managers to mitigate the risks when investing in companies that have ties to terrorist sponsoring countries and ways and methods to limit investments in companies with ties to terrorist sponsoring countries without compromising portfolio returns. Repeals the task force on December 31, 2004. 	Passed Senate 16-10-4. Assigned: Not yet assigned. Status: Awaiting Hse. First Read. <u>DEAD (?)</u>	As Passed the Senate: Requested.	As Passed the Senate: Requested. As Amended in Sen. FIN: A potential increase in the contribution rate for all employers and employees of 0.64% each. Based on \$4 million increase in investment management fees, a 0.50% reduction (est. \$80 mil.) in investment return, and \$300,000 annually to purchase oversight services and prepare the reports. Potential litigation costs are not included.

LEGEND

AMEND C&P	Constitutional and Proper as Amended by the House Rules Committee	HB	House Bill
APPROP	Appropriations Committee	HCR	House Concurrent Resolution
ASRS	Arizona State Retirement System	HHR	House Hearing Room
C&P	Constitutional and Proper	Hse.	House of Representatives
CORP	Corrections Officer Retirement Plan	JUD	Judiciary Committee
COW	Committee of the Whole	LTD	Long Term Disability
DP	Do Pass	PFC	Proper for Consideration
DPA	Do Pass as Amended	PFCA	Proper for Consideration as Amended by the Senate Rules Committee
EORP	Elected Officials' Retirement Plan	PSPRS	Public Safety Personnel Retirement System
FII	Financial Institutions and Insurance Committee	SB	Senate Bill
FIN	Finance Committee	S/E	Strike Everything Amendment
GF	General Fund	Sen.	Senate
GOV	Government Committee	SHR	Senate Hearing Room
GR	Government and Retirement Committee	WM	Ways and Means Committee

**The weekly legislative report is available on-line at the ASRS Web site:
www.asrs.state.az.us**

ASRS External Affairs staff and the Legislative Board Committee meet during the legislative session. The meetings take place in the 14th floor conference room of the ASRS office at 3300 N. Central Ave., Phoenix, and are open to the public. The purpose of these meetings is to review legislative activity on retirement bills from the previous week, and to review the scheduled bill activity in committees and on the floor for the upcoming week. Committee members ask technical and background questions, and review the latest information gathered from the Capitol and retirement groups from around the state. Meetings are teleconferenced to the ASRS Tucson office at 7660 E. Broadway Blvd., Tucson. Meeting agendas and minutes will be posted on the ASRS website. If you have questions relating to legislation, please contact Kelly Orrick at (602) 240-2027 or via email at KellyO@asrs.state.az.us.